

# STATE TREASURER'S 2000 POLICY GOALS AND INITIATIVES

## **POLICY GOALS**

California State Treasurer Phil Angelides was sworn into office on January 4, 1999. His key goals are to protect taxpayer funds, to cost-effectively finance schools and other infrastructure that California needs to succeed in the 21<sup>st</sup> Century, and to invest more in California communities.

What follows is a brief summary of the major 2000 policy initiatives launched by the Treasurer in pursuit of these goals. The *State Treasurer's 1999 Policy Goals and Initiatives*, as well as this document, can be found at [www.treasurer.ca.gov](http://www.treasurer.ca.gov).

## **POLICY INITIATIVES**

### **THE DOUBLE BOTTOM LINE: INVESTING IN CALIFORNIA'S EMERGING MARKETS**

In May 2000, the State Treasurer's Office launched a major public policy initiative, *The Double Bottom Line: Investing in California's Emerging Markets*, to direct more than \$8 billion in investment capital – through state programs and the State's pension and investment funds – to spur economic growth in those California communities left behind during the economic expansion of the past decade. The initiative recognizes that the growing chasm between the “two Californias” – one of economic success and one of struggle – will dim the State's long-term economic prospects if action is not taken.

The Treasurer's report and policy initiative mobilizes the powerful instrument of financial capital in new and innovative ways, consistent with the highest fiduciary standards, to respond to the challenges of widening economic disparity. The programs and policies outlined seek to achieve the “double bottom line” goals of strong investment returns and broadened economic opportunity.

Since the launching of *The Double Bottom Line* initiative, the Treasurer's office has proceeded on a number of fronts to implement the programs outlined in the report (see section below regarding **Investing in California Communities**). A full copy of the report may be found on the web at [www.treasurer.ca.gov](http://www.treasurer.ca.gov). Also available at [www.treasurer.ca.gov](http://www.treasurer.ca.gov) is *Smart Investments: Ideas to Action*, which outlines actions taken to date to implement the policies and programs called for in *The Double Bottom Line: Investing in California's Emerging Markets*.

## **PROTECTING TAXPAYER DOLLARS**

- **Taxpayer Funds Invested With Record Earnings**

In 2000, the State Treasurer's Office achieved record earnings of \$2.47 billion on state and local taxpayer funds invested through the Pooled Money Investment Account (PMIA), which is overseen by the State Treasurer. The PMIA's overall return on investment in 2000 – 6.27 percent – was reached in only one prior year during the last decade.

- **State Pension Funds Sell Tobacco Holdings**

At the request of the Treasurer, the governing boards of two of the nation's largest public employee pension funds – the California Public Employees' Retirement System and the California State Teachers' Retirement System (the Treasurer sits on both boards) – decided to sell their over \$800 million in tobacco holdings.

The action recognized that tobacco would remain a risky long-term investment because of the unprecedented barrage of litigation and regulatory action faced by the industry and because society as a whole has rendered a powerful judgement – unlikely to change over time – about the product and industry practices. The action further recognized that there are other investment options available to provide the pension systems with strong returns.

- **Strengthened Standards for Investment in Foreign Emerging Markets**

In November – at the Treasurer's request – the California Public Employees' Pension System (CalPERS) adopted new policies to better protect pension funds by reducing the risk of investing in stocks and bonds in foreign emerging markets such as Indonesia, Malaysia and Argentina, where past returns have been mixed at best, strikingly poor at worst. Currently, the fund has approximately \$2 billion invested in these highly volatile markets which can pose considerable financial risk for investors due to factors such as economic and political conditions.

The new CalPERS policy evaluates foreign markets on a set of financial screens, as well as factors that impact long-term value and growth. These factors include whether countries are politically stable and are moving towards true democracy and, therefore, free markets; whether countries have financial transparency, including a free press; and whether countries have banned abusive practices such as child labor. The new policy also encourages investments in emerging market companies that are committed to principles of corporate responsibility, such as equal opportunity, safe workplaces, and environmentally sustainable practices.

## **Financing California Schools and Infrastructure/Building California's Future**

- **ScholarShare Rated Top College Savings Plan by Financial Experts**

In its August 2000 issue, *Kiplinger's* savings and investment magazine rated California ScholarShare – which is chaired by the State Treasurer – as one of the top five college savings plans in the country. Joe Hurley, an authority on saving for college and author of the book, *The Best Way to Save for College*, awarded California ScholarShare four out of five “graduation caps” in his rating of the nation’s state-sponsored college savings programs. Both publications cited experienced fund managers and recently expanded investment options as strong features of the California program.

During 2000, the number of Californians investing in ScholarShare rose from a little over 5,000 to nearly 27,000, with assets under management climbing from \$26 million to over \$112 million. More information about ScholarShare can be obtained on the web at [www.scholarshare.com](http://www.scholarshare.com).

- **Extra Credit Teacher Home Purchase Program Funded and Underway**

In September 2000, the California Debt Limit Allocation Committee (CDLAC), chaired by the State Treasurer, made funding available to provide home purchase assistance to teachers and principals who commit to serving in low performing California schools. The Extra Credit Teacher Home Purchase Program, first proposed by the Treasurer in December 1999, will serve over 4,000 teachers and principals through 2004.

San Francisco, the City and County of Los Angeles, as well as Sacramento, Santa Clara, San Bernardino and Orange counties, are now launching teacher home purchase programs that combine “Extra Credit” tax credits or low-interest mortgages with local community provided downpayment assistance.

- **Smart Growth Grants for California Communities**

The State Treasurer’s Office sponsored AB 779 (Torlakson), which was signed into law, authorizing the California Pollution Control Financing Authority, chaired by the State Treasurer, to make \$2.5 million in grants to economically distressed local communities to create smart growth, community revitalization programs.

- **Financing Construction and Repair of California Schools**

During 2000, the State Treasurer’s Office made available over \$2.4 billion in voter approved Proposition 1A bond funds to local schools for school construction and repair.

## **Investing in California Communities**

- **Increased State Deposits in California Lending Institutions Committed to Community Investment**

The State Treasurer's office has put more of the taxpayers' money – managed through the State's PMIA – to work here in California by increasing deposits of state funds in California community lending institutions by \$1.56 billion in 2000. The number of entities participating in the "Time Deposit" program increased from 63 to 116.

The program assures a yield to the State that is above the Treasury bill rate, and deposits are more than fully collateralized. The state deposits provide lenders with funds to boost small business and home mortgage lending in California communities.

- **New Funding to Clean Up Brownfields in California Neighborhoods**

SB 1986 (Costa), proposed by the State Treasurer's office, was signed into law enabling the California Pollution Control Financing Authority (CPCFA), chaired by the State Treasurer, to finance environmental assessment and remediation of brownfields – contaminated sites in the midst of urban and rural communities. These properties – estimated to number in the tens of thousands across California – not only pose environmental and health risks, but also represent underutilized economic assets in local communities.

Financing of environmental assessment and remediation is a critical step in returning brownfield sites to productive use and in revitalizing economically struggling neighborhoods. The program, with initial funding of \$10 million, is expected to be up and running by mid 2001.

- **\$500 Million Investment Fund Targeted to Underserved Communities**

In June 2000, CalPERS, where the Treasurer serves as a board member, granted approval for The California Initiative, a \$500 million investment fund targeted to businesses locating and expanding in underserved communities – with the "double bottom line" goals of achieving risk-adjusted, market returns for the pension system, while broadening economic opportunity.

The initiative has been structured to engage strong private sector investment partners and to leverage additional capital. It is expected that the investment program will be underway by the summer of 2001.

- **The Cedillo-Alarcon Community Clinic Investment Act – Funding for Local Health Clinics**

In 2000, the Treasurer's office played a key role in the successful effort to pass the Cedillo-Alarcon Community Clinic Investment Act. The Act provides \$50 million to the California Health Facilities Financing Authority (CHFFA), chaired by the State Treasurer, to make grants to community clinics to expand health services for low-income families, recognizing that basic services, such as healthcare, are a key element of any effective strategy to bridge the growing gap between rich and poor in California.

- **More Federal Funding for Affordable Housing, Pollution Control, Job Creation and Student Lending**

The State Treasurer's office played an active role in gaining more federal funding for affordable housing, pollution control, job creation, and student lending.

Under federal legislation passed in December 2000, annual funding for the construction and rehabilitation of affordable rental housing will increase substantially. California's share of the federal low income tax credit increased from \$41.9 million in 2000 to \$50.8 million in 2001, with a further increase to over \$58 million slated for 2002. The housing tax credit program is administered by the California Tax Credit Allocation Committee, chaired by the State Treasurer.

Additionally, federally authorized low interest financing for affordable housing, industrial development projects, pollution control and student loans was increased from approximately \$1.65 billion in 2000 to \$2.1 billion in 2001 and over \$2.5 billion in 2002. This financing is allocated by the California Debt Limit Allocation Committee (CDLAC), chaired by the State Treasurer.

- **New Law Requiring Public Funds to be Deposited in Financial Institutions Committed to Community Reinvestment.**

Assembly Bill 2708 (Wesson), proposed by the State Treasurer's Office and signed into law, incentivizes investments in economically distressed neighborhoods by requiring state and local governments to deposit their funds in secure financial institutions that are investing in lower-income communities. This law ensures that taxpayers' moneys will help provide investment capital for those California communities that need it most.